ANNEXURE "19"

RAND WEST CITY
LOCAL MUNICIPALITY

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TARIFF POLICY
2018-2019

DRAFT

Policy: TARIFF POLICY	**Effective Date: 1st July 2018**
Approved: SP.8/28/03/2018	**Review Date: 28/03/2018**

Notwithstanding the review date herein, this policy shall remain effective until such time approved otherwise by council and may be reviewed on an earlier date if necessary.

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1. Foreword

In terms of Section 62 (1) of the Municipal Finance Management Act (MFMA) the Accounting Officer of a Municipality is responsible for managing the financial administration of the municipality and, in terms of S62 (1) (f), must for this purpose take all reasonable steps to ensure – "that the municipality has and implements a tariff policy referred to in Section 74 of the Municipal Systems Act" (MSA). In giving effect to S74 (1) of the Municipal Systems Act, the municipality adopts the following as the framework tariff policy within which the municipal council must adopt various policies.

2. Definitions

In this policy:

"municipal area" means the area in respect of which the municipality has executive and legislative authority as determined by the constitution and the National legislation and the area as demarcated by the Demarcation Act (Act 27 1998);

"municipal council" means a municipal council referred to in section 157 of the Constitution and for this by-law includes a municipal local council and a municipal

district council, as the case maybe;

"poor households" means those households in the municipal area that cannot afford to pay either the entire tariff charge for the municipal services, or part of it;

Also means those households in the municipal area living in property with a municipal property valuation under R400 000 and earn less than R4000 per month.

"tariff policy" means a policy on the levying of fees, rates or taxes for the municipal services provided by the municipality itself and that complies with the Municipal Systems Act 2000 (Act 32 of 2000);

"the Act" means the Municipal Systems Act 2000, (Act 32 of 2000) (MSA).

3. Introduction

One of the primary functions of a local authority is to provide services to the people resident within its municipal area. The funding of these services is made possible by levying property taxes, charging for municipal services rendered and levy collection through business levies. Tariffs represent the charges levied by Council on consumers for the utilization of services provided by the Municipality.

These are calculated dependent on the nature of service being provided. They may be set in a manner so as to recover the full cost of the service being provided or recover part of the costs or bring about a surplus that can be utilized to subsidies other non-economical services.

4. Objective

The objective of the tariff policy is to ensure that**:**

4.1 The tariffs of the Municipality comply with the legislation prevailing at the time of implementation.

4.2 The Municipal services are financially sustainable, affordable and equitable.

4.3 The needs of the indigent, aged and disabled are taken into consideration.

4.4 There is consistency in how the tariffs are applied throughout the municipality and;

4.5 The policy is drawn in line with the principles as outlined in the MSA (see 5 below)

5. Principles

In terms of S74 (2) of the Municipal Systems Act of the following principles should at least be taken into account when formulating a Tariff Policy,

5.1 The users of municipal services should be treated equitably in the application of tariffs.

5.2 As far as practically possible, consumers should pay in proportion to the amount of services consumed.

5.3 All households, with the exception of the poor (indigent), should pay the full costs of services consumed. Poor households must have **access to at least a minimum** level of basic services through:

5.3.1 Tariffs that cover the operating and maintenance costs,

5.3.2 Special lifeline tariffs for low levels of use or consumption of services or for basic levels of service, or

5.3.3 Any other direct or indirect method of subsidization of tariff for poor households.

5.4 Tariff must include the cost reasonably associated with rendering the service, including capital, operating, maintenance, administration, replacement and interest charges.

5.5 Tariffs must be set at a level to facilitate financial sustainability of the service, taking into account subsidization from sources other than the service concerned.

5.6 Provision may be made in appropriate circumstance for a surcharge on the tariff for a service.

5.7 Provision may be made for the promotion of local economic development through a special tariff for categories of the commercial and industrial users.

5.8 The economical, efficient and effective use of resources, the recycling of wastes and other appropriate environmental objectives must be encouraged.

5.9 The extent of subsidization of the poor households and other categories of users should be fully disclosed.

In terms of S74 (3) of the MSA a tariff policy may differentiate between different categories of users, debtors, service providers, services and geographical areas as long as the differentiation does not amount to unfair discrimination. In order to give full effect to this section, Section 75 (1) of the MSA provides for the municipal council to adopt bylaws.

6. Classification and Pricing Strategies of Services

There are basically three categories of municipal services (i.e. trading, rate and general and housing services) which are discussed as follows:

6.1 Trading Services

These services are defined as services whereby the consumption of the service is measurable and can be accurately apportioned to an individual consumer. These services are hence managed like businesses. The tariffs for these services are budgeted for in such a way that at least a breakeven situation for the municipality will be realised. Examples of these services include water and electricity. The Council's pricing strategy for these services is to recover the full cost of rendering the service to the communities. For this purpose full costs includes:-

- Direct operating costs e.g. Salaries, allowances including overtime, materials used, repairs and maintenance, general expenses and plant and vehicle hire.
- Depreciation / capital charges based on usage, life of buildings, plant and equipment and infrastructure used.
- Financing outlays which includes loan service costs.
- Allocated costs that include costs allocated through support services.

6.2 Rates and General Services

This service is further classified into 3 categories i.e. economic, subsidised and community services.

6.2.1 Economic Service

These are services for which tariffs are fixed in such a way that the full cost of providing the service is recovered without incurring a surplus or deficit e.g. trade effluent includes commercial and industrial refuse removal. The consumption of an economic service can be measured or determined with reasonable accuracy and apportioned to an individual consumer. Whilst they are also managed like businesses, the tariffs for these services are normally determined in such a way that user charges cover the cost of providing the service.

These costs can be determined as follows:-

- Full cost of providing the serviced as explained in 6.1 above.
- The rate per unit is based on projected usage.

6.2.2 Subsidised Services

These are services for which tariffs are fixed in such a way that at least a portion of the cost of providing the service can be recovered. The consumption of these services can be determined reasonably accurately and can be apportioned to individuals and consumers.

However, if the tariffs for using this service were based on its real cost, nobody would be able to afford it. In most cases not only would the consumer benefit from using the service, but also other persons.

Therefore, user charge is payable for using the service, but the tariff is much lower than the real cost of providing the service. These services include fire fighting, approval of building plans and the construction of buildings, leasing of municipal facilities, selling of burial sites and certain town planning functions.

6.2.3 Community Services

Community services are those services for which the Council is unable to accurately determine the consumption and hence apportion to individual consumers. These services are typically financed through property rates. These services include the operation and maintenance of parks and recreation facilities, provision and maintenance of roads and storm water drainage systems, the establishment, management and maintenance of cemeteries and traffic regulation.

In addition to the above services domestic refuse and sewage removal is also a community service provided directly to all the residents and for which costs form part of a balanced budget. The Municipality also provides support services such as committee services, records and archives, financial management accounting and stores, occupational health and human resources management, which are financed through property rates.

6.3 Housing and Hostel Services

These are usually grouped into three categories, namely, letting schemes, selling schemes and hostels. All income and expenditure transactions in respect of such schemes fall into this category and the objective of the service is to be economic i.e. the operating income should cover the operating expenditure. In addition these functions are being carried out on an agency basis as these are not deemed as Local Government functions.

7. Policy Proposal

7.1 A minimum amount of basic services must be free

The Municipality subscribes to the policy that all poor households are entitled to a minimum amount of free basic services. A basic service is a service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health or safety of the environment.

These services include:

- Potable water
- Domestic wastewater and sewage removal
- Domestic refuse removal
- Electricity

The Council realises that in order to achieve its goal, a minimum amount of basic services should be free to the poor, whilst tariffs for services above the minimum level of consumption will have to be increased.

These increases are necessary to make good any shortfall resulting from free services and to ensure a balanced budget on the trading account. In order to ensure affordable services, the Council will introduce a stepped tariff structure in which consumers that use more of a service will pay progressively more for the higher consumption than those who consume less of a service.

7.2 Keeping Tariffs Affordable

The Council is keenly aware of the financial situation of most residents within the municipal area. Therefore, the Council undertakes to keep tariffs at affordable levels.

The Council is also aware that due to historical reasons many residents receive services at a level higher than what they can afford. In order to remain affordable the Council will ensure that:

- Services are delivered at an appropriate level,
- Efficiency improvements are actively pursued across the Municipalities' operations,
- A performance management system is introduced to ensure that plans that are devised are actually implemented, that resources are obtained as economically as possible, used efficiently and effectively and that appropriate service delivery mechanisms are used,
- Any non-core functions that it currently performs are phased out as soon as possible without depriving the community of any services that really contributes to the quality of life of people in our area, and;
- Any service that is provided for which there is little demand, be priced at the actual cost of providing it. If this requires the Municipality to maintain significant infrastructure and other facilities, they should be phased out, except where the Council is by law required to provide such a service.

7.3 Introducing the "Consumer must pay principle"

Having regard for the abovementioned Council's policy on minimum amount of free basic services for all, the Council believes that consumers of services must pay for the amount of services that they use. Where it is possible to measure the consumption services, the Council intends to install metering systems as in the case of water usage, and to take into account the free service element.

In this regard the Council will develop a programme to install meters in appropriate cases. Also it is the Council's policy that the tariffs for such services must include all relevant cost factors.

7.4 Redistribution / Cross Subsidization

It is a fact that some members of the community are better able to afford to pay for the services that they use and have the benefit of, than others. The budget of the Municipality is an important device in ensuring redistribution within the community. Those that pay higher property rates based on the value of their properties, in fact subsidise those who pay less tax.

The Council uses the trading surplus it realises on the trading account to bring relief with regard to property tax rates. Likewise the Council will ensure that the cross subsidization occurs between and within services to further contribute to its redistribution objectives.

7.5 Promoting Local and Economic Competitiveness and Development

The size of the property rates and service charges accounts presented to the local businesses, is a significant business overhead for any business enterprise in the Municipal area. The overhead of a business is one of the factors that influence the price of goods and services sold by it, and therefore its profitability and chances of survival.

The Council will take care that the municipal accounts presented to local businesses are fair. To ensure fairness toward local business, the Council will, when it determines tariffs, take into account the desire:

- To promote local economic competitiveness and
- To promote local economic development and growth.

7.6 Ensuring Financial Sustainability of Service Delivery

The Constitution, Local Government Municipals Systems Act, 2000 and Water Services Act of 1997 require that the Municipality must ensure that the services that it provides must be sustainable. Financial sustainability of the municipality will be achieved when it is financed in a manner that ensures that it exhibits, at least, a break-even position.

The tariff for a service must therefore be sufficient to cover the cost of the initial capital expenditure required and interest thereon, managing and operating the service and maintaining, repairing and replacing the physical assets used in its provision. However, sustainability does not only mean that the price of the service must include all the relevant cost elements, it also means that charges to be levied must be collected. The Council will therefore adopt and apply a Credit Control and Debt Collection policy to ensure that property rates and service charges are fully recovered.

7.7 Indigents

The indigent assistance scheme will apply to tariffs set by the Council. With regards to customer service agreements, deposits and guarantees, accounts and billing, and all other items pertaining to credit control and debt collection, related to tariffs, reference must be made to the Credit Control and Debt Collection Policy.

8. Tariff Determination Process

Except in special circumstances, such as significant increases in the wholesale price of goods and services, the Council purchases during a year to provide services, the council will review its tariffs during the preparation of the annual budget in accordance with the policy stated above. Proposed tariffs will be presented to the community during Councils consultation process about the budget.

In terms of Section 75 (A) of the MSA Amendment Act 51/2002, a municipality may operate such;

- That it can levy and recover fees, charges or tariffs in respect of any function or service of the municipality,

- That fees and charges levied are passed by the municipal council with a supporting vote of a majority of its members.

- The proposed tariffs will be presented to the community during Council's consultations process about the budget.

- Except in special circumstances, such as significant increase in the wholesale price of goods and services, the Council purchases during a year to provide services, the Council will review its tariffs during the preparation of the annual budget in accordance with the policy stated above. Proposed tariffs will be presented to the community during the Community consultation process about the budget.

- Immediately after the Council has determined or amended a tariff, the municipal manager must cause to be conspicuously displayed at a place installed for this

purpose at all the offices of the Municipality as well as at such other places within the municipal area as she / he may determine, a notice.

The notice must state:

The general purpose of the resolution;

The date on which the determination or amendment comes into operation, which date may not be earlier than 30 days after the determination or amendment,

The date on which the notice is displayed;

That any person who desires to object to such determination or amendment must do so in writing within 14 days after the date on which the notice was displayed, and

That any person who cannot write may come during office hours to a place where a staff member of the Municipality named in the notice, will assist that person to transcribe her / his objection.

If no objection is lodged within the period stated in the notice the determination or amendment will come into operation on the date determined by the Council.

Where an objection is lodged, the Municipality will consider every objection.

The Council may, after it has considered all objections, confirm, amend, or withdraw the determination or amendment or may determine another tariff, on the date on which the determination or amendment will come into operation.

After the Council has considered the objections it will again give notice of the determination, amendment or date as determined above and will also publish it as determined by the Council.

9. Conclusion

The terms of the above policy is that once it is adopted, it would in respect of Section 75 (1) (b) of the MFMA, be placed on the website referred to. In addition to Section 21 A of the MSA, this policy will be reviewed annually and adopted by Council before the Budgets are finalized.

10. Authority

Formulation Policy	:Chief Financial Officer
Authorization Policy	:Council
Ownership and Maintenance Manager	:Manager Revenue